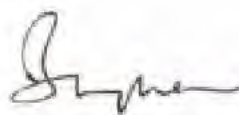


PRIME MINISTER

Rupert Murdoch Lunch

Attached is a record of the salient points of your lunch yesterday with Rupert Murdoch. In line with your wishes, the attached has not gone outside No. 10 and is, of course, to be treated "Commercial - In Confidence".



B. INGHAM

5 January, 1981

COMMERCIAL - IN CONFIDENCE

NOTE FOR THE RECORD

Lunch with Rupert Murdoch

1. The Prime Minister, accompanied by Mr. Thatcher and myself, gave lunch to Rupert Murdoch, Chairman of News Group Newspapers, at Chequers on Sunday, January 4, 1980. The meeting was at Mr. Murdoch's request.
2. Much of the discussion was concerned with Mr. Murdoch's (favourable) impressions of the embryonic and developing Reagan administration and ^{with} Australian politics.
3. On the former, Mr. Murdoch singled out for particular praise Messrs. Haig; Stockman (Budget) about whom he was particularly enthusiastic; and Weinburger (Defence). He also expressed an interest in introducing the Prime Minister to a group of 'New Right' politicians who had gathered around Daniel Moynihan during her visit to New York. The Prime Minister indicated that she would be inclined to take up such an invitation if her schedule allowed. Mr. Murdoch was asked to put a proposition to the Prime Minister via me.
4. The main purpose of Mr. Murdoch's visit was to brief the Prime Minister on his bid for Times Newspapers. (Before the meeting I had attempted to secure information about the 10 bids, as reported in the press, from the Department of Trade. They reported, however, that Times Newspapers were very secretive about the bids and that they had no information beyond that in the newspapers).
5. Mr. Murdoch said he had made a firm bid for Times Newspapers (Sunday Times and the Times and its supplements) which contained the following elements:
 - a nominal bid for all the titles, all of which would be retained;
 - in return, he would meet the redundancy costs for all staff except management;

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- the offer would be conditional upon a 25% reduction in overall manning.

6. Mr. Murdoch said that he did not believe that he could move to optimum manning and use of new technology in one fell swoop. He would, however, hope to get a 50% introduction of new technology within Times Newspapers, though this might be an ambitious initial objective. Nor did he accept that printing outside London was an option; he was firmly of the opinion that the titles must be printed in London.

7. This led him to speculate on other offers. He thought the following bids were likely to have been received:

- Lonrho (who were unlikely to impress either Thomson, unions or journalists);
- Robert Maxwell (a similar verdict);
- Sir James Goldsmith (probably only for the Sunday Times - a strong contender for that title, though Mr. Murdoch felt that anyone willing to buy all the titles was in a stronger position);
- Times Journalists - JOTT (again thought unlikely to carry much conviction, even with the backing of GEC).

8. Mr. Murdoch acknowledged that there could be other bids, but he doubted whether any could match his willingness to take over all the titles and the redundancy liability, conditional on substantial manning reductions.

9. He accepted that his bid was a gamble on his ability:

/a) to expand

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- a) to expand the Sunday Times beyond the present union imposed ceiling of 72 pages; he had no doubts about the potential for expansion since, even at the depths of a recession, this newspaper was turning down advertising;
- b) to raise advertising rates (as the market clearly permitted) which, in association with increased pagination, would impose very severe competition on the Observer;
- c) to expand the Times and, to a lesser extent with the Sunday Times, to attract leading journalistic names to write for it;
- d) to crack a particularly tough nut in the form of the chapel leadership of the clerical staff who had extracted high pay and a short working week; and
- e) to negotiate direct with the chapels since, however helpful union leadership might be disposed, it had lost control of its membership; and
- f) steadily to make progress in reducing manning levels and in introducing new technology.

10. Mr. Murdoch freely admitted that some £50 million of the News Group's resources could be at risk and that such an amount "could finish us". He implied that he was prepared to take losses for a limited, but unspecified, period. But he also saw substantial savings to offset Times Newspapers' admitted current loss of £13 million a year but which was thought to be higher at some £15 - 17 million. Among

/these

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these were 25% reduction in manning (£8 million saving) concentration upon one office block in Grays Inn Road (£1 million); and other sundry savings. Nonetheless, turning round a £13-17 million loss was a formidable undertaking at a time of deep industrial recession. Essential parts of the equation were thus manning reductions and expansion of the Sunday Times and, to a lesser extent, The Times.

11. As is implied by the condition in the bid that Thomson should accept liability for managerial redundancy, Mr. Murdoch would bring in an entirely new management team headed by Mr. Long, the head of Reuters in London.

12. The Prime Minister thanked Mr. Murdoch for keeping her posted on his operations. She did no more than wish him well in his bid, noting the need for much improved arrangements in Fleet Street affecting manning and the introduction of new technology. Mr. Murdoch made it clear that in his view the prime need, given the inevitability of progressing gradually, was to apply existing technology with reasonable manning levels.

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London SW1X 8NJ

307

15th January.

My dear Prime Minister,

My apologies for the very belated nature of this letter. It was kind indeed of you to let me interrupt your weekend at Chequers ten days ago and I greatly enjoyed seeing you again.

'The Times' business is proceeding and the field has

2.

Contracted down to only two
or three of us. Thomson's
will make up their mind
in ^{the} next day or so.

We hope to see you in
New York on the 28th February.
I have just returned from
Washington where there is a
great mood of optimism about
the new Administration.

With warm regards,

Yours sincerely,

Robert D. Fernald